

## **Good afternoon and welcome to the Peermont Second Quarter Results Conference Call**

My name is Anthony Puttergill, CEO of Peermont and with me I have Grant Robinson, our Group Financial Director.

We will be discussing our quarterly report for the three and six months ended 30 June 2009 that was released on Friday 28 August 2009.

Our discussion may include certain forward-looking information, which investors should not rely upon, particularly in this uncertain economic climate.

Turning now to the second quarter results, in summary:

1. Total revenues decreased by 4.7% to R611.6 million for the quarter from R641.8 million in the same quarter of 2008;
2. EBITDA decreased by 14.2% to R224.8 million from R262.1 million in 2008. This results in an LTM EBITDA of R985.8 million; and
3. Although our EBITDA margin decreased to 36.8% from 40.8% in the same quarter of 2008, operating cost growth was limited to 4.6%.

For the six months to June:

1. Total revenues increased by 0.5% to R1 245.5 million for the period from R1 239.9 million in the same quarter of 2008; and
2. EBITDA decreased by 7.4% to R466.3 million from R503.2 million in 2008. Our EBITDA margin of 37,4% for the half-year remains the highest among the South African gaming groups which have published their results for the six months.

Our pro forma credit ratios have changed as follows:

1. Net cash pay debt/LTM EBITDA has remained at 4.6 times, consistent with the quarter to 31 March 2009 and the year to 31 December 2008. The 4.6 times is still favourable when compared to the 6.3 times at the time of issuing the notes in April 2007;
2. Total net debt through the PIK Notes/LTM EBITDA has also remained at 5.9 times as compared to the figures reported at December 2008. This has improved from the 7.3 times per the offering memo; and
3. The estimated LTM EBITDA/historic net cash interest expense is 1.5 times. This was expected after the April coupon payment due to the increased interest cash flow related to the Cross Currency Swaps.

As in the past, we have adjusted the EBITDA figure above to include interest received and we have adjusted the net debt figures above to include:

1. the unamortised costs relating to the notes (which are being written up on an effective interest basis over the life of the loans);
2. The value of the net derivative liability directly related to the SSN debt; and
3. Cash balances on hand.

Our call will begin with a brief discussion of the macro-economic environment in SA, followed by an update of industry developments. I will then take you through certain financial and operating highlights, followed by a review of the financial results by Grant. Finally, I will conclude with a brief discussion of the key developments approved for 2009 and beyond.

South Africa's economy shrank for a third consecutive quarter by an annualised 3% on a seasonally adjusted basis in the second quarter of 2009, compared with a decline of 6.4% reported for Q1 2009.

The South African consumer continues to deleverage and approximately 475 000 jobs have been shed thus far this year. Although the SARB has cut interest rates by 500 bps this year, consumers are still reluctant to spend freely. At this point, no further interest rate cuts are expected.

Growth in gaming revenues, as estimated based on levies paid in Gauteng, South Africa's largest provincial gaming market, declined by 3.8% in the quarter to 30 June 2009, when compared to the same period in 2008. Emperors Palace showed a decline of 10% in the same quarter. For the six months to June 2009, the Gauteng gaming market increased by approximately 1% and Emperors Palace's gaming revenues declined by 2.6%. For the first half of the year we estimate our market share in Gauteng to be at 24.1% as compared to 25.1% in 2008.

Revenue growth from the balance of the group operations was healthier, growing by 4.2% for the second quarter in total as compared to the 8.9% decrease reported for Emperors Palace. Revenues from other operations grew to R215.0 million for the quarter, comprising 35.2% of group revenues.

The hotel market in South Africa showed negative growth of 5.0% in Revpar for Q2 of 2009. Our results for the quarter reflect growth in hotel and resort revenue of 1.4%, with rooms revenue delivering growth of 9.3%. This performance has been helped by additional rooms capacity at Rio and Emperors Palace as from March 2009.

From an overall group revenue perspective:

Within the second quarter, we experienced revenue declines of 1.4% in April, 2.5% in May and 10.3% in June;

In July, revenue decreased by 4.2% compared to July 2008, and August thus far is showing a decrease of approximately 4% as compared to the same period last year, with softer revenues from our Emperors Palace property more than offsetting good growth from the rest of the group operations in July and August 2009. Emperors will continue to be affected by ongoing refurbishment work until December this year, although less severely from October. In addition, the current Mmabatho Palms refurbishment project will be completed in September. I will now take you briefly through the operating performance points for the quarter:

**Emperors Palace** showed a decline in total revenues for the quarter of 8.9% to R396.6 million from R435.4 million in 2008. The refurbishment of the retail and entertainment emporium coupled with the pressures on disposable income created by the continued economic recession had a significant impact on revenues.

Gaming revenue for the quarter decreased by 9.8% to R332.6 million whilst rooms revenues increased by 12.0% to R30.7 million.

Our slots revenue declined by 8.6%, while our tables revenue declined by 12.7% for the period.

Tracked play for the quarter increased to 68.5% compared to 52.5% in the 2008 period. This is as a direct result of the unit fully converting to smart-card based coinless gaming during March 2009. Emperors experienced a decline in the average daily number of vehicles through the gate by approximately 7.7%, from 5 490 to 5 063 for the quarter. This was exacerbated by a 2.1% decrease in spend per visit, from R369 to R361 per visit during the quarter.

Rooms revenue grew by 12.0% to R30.7 million for the three months compared to the same period in 2008. Our new Peermont Metcourt Hotel contributed R8.0 million of this increase, indicating a decline of R4.7 million in revenues from the previously existing rooms capacity. Average room occupancy levels were 71,1% for the quarter, a decrease from 90.9% in the same period last year, impacted by the additional supply of the 4<sup>th</sup> hotel being opened as from 1 March 2009 and the general decline in hotel occupancies being experienced in the country.

Even though cost control was very good, EBITDA for the quarter decreased by 17.5% to R146.2 million. The EBITDA margin softened from 40.7% in the same period last year to 36.9% for the current quarter.

Marketing costs decreased by 8.8% to R28.4 million as compared to R31.1 million in the prior period.

Payroll costs grew by 4.1% at Emperors Palace as compared to the same quarter in 2008.

Going forward, this cost containment performance will be difficult to maintain, due mainly to the following three factors:

- 1) The wage increase of 10.2% which took effect as from 1 July 2009 in terms of the three year wage agreement with the union concluded last year;
- 2) An increase in the local municipal property rates and taxes bill equivalent to some R15m per annum as from 1 July 2009; and
- 3) A significant increase in marketing activity which took effect in July 2009 and is spearheaded by our Celebration Colossus Campaign, the biggest ever in Gauteng.

**As regards our other group operations**, overall revenue grew by 4.2% or R8.6 million and EBITDA decreased by 7.4% or R6.3 million. Included in EBITDA for the quarter was a charge of R5.8 million arising from the decision to no longer relocate our Tusk Umfolozi unit to Richards Bay.

Stronger performances at our Bethlehem and Khoroni operations were not sufficient to fully offset weaker performances during the quarter at our Emperors Palace, Rio and Mmabatho properties.

Rio had a poor quarter with revenues up 1.5% to R34.4 million and EBITDA down 26.6% to R10.5 million. This was impacted by additional corporate social investment expenditure, an adjustment to VAT and gaming levies, major repairs and maintenance; pre-opening expenditure for the Peermont Metcourt Hotel; and, start up costs associated with the hotel and in sourcing of the food and beverage operations.

By contrast, our Khoroni and Frontier Inn operations delivered notable performances during the quarter, Khoroni enjoying a 12.3% increase in revenue and an 8.6% increase in EBITDA, while revenue at Frontier Inn increased by 13.3% with EBITDA increasing by 23.5%.

I will now hand you over to Grant Robinson to deal with details of the cash flows, treasury activities and capital expenditures in the quarter. Thereafter, I will cover new developments.

**I will now hand you over to Grant Robinson**

Good afternoon

### **Commentary on the results**

As with previous results conference calls, Anthony has dealt with the group quarterly results and unit performance up to the EBITDA line. I will not specifically re-address the items discussed before. We are happy to take questions on this section of the report later in the conference call.

As I hope you have become accustomed to, I will focus on the lower end of the income statement, cash flows and capital expenditure sections of the quarterly report for clarification thereof.

### ***Depreciation***

The depreciation charge increased by R22.4 million or 26%, from R86.7 million in 2008 to R109.1 million in 2009. This is partly due to the depreciation of the new assets and the effect of the refurbishments done at our older existing properties such as Mmabatho Palms and Khoroni in recent years. This was also affected by an understatement of the charge at Emperors Palace in the first three quarters of 2008 which was corrected in December 2008.

### ***Financial income***

This consists mainly of the gains on the hedging instruments or the underlying Senior Secured Notes liability as well as the cash received on the cash deposits at financial institutions.

This interest on cash balances is lower than the comparable six months due to declining interest rates and lower cash balances.

The R9.6 million profit on the purchase of the PIK Notes, to be discussed later in the call, was pushed down by PGH II to Peermont and its subsidiaries.

In the quarter, the movement in the R/€ exchange rate resulted in a foreign exchange gain of R600.1 million on the €416.1 million Senior Secured Notes foreign exchange exposure. This brought the total gain for the six months to R880.0 million. In the first half of 2008 a gain of R1 322.6 was realised on the revaluation of the derivative instruments hedging the Senior Secured Notes.

### ***Financial expenses***

The cost for the three months ended June 2009, consists of a R524.1 million loss on the restatement of the fair value of the hedging instruments; the coupon accrual on the notes of R119.7 million; the coupon accrual on the shareholders loans of R119.3 million; and, finance costs of R7.5 million relating to the interest flows on debt in the Head Office, Botswana and Frontier companies.

The cost for the six months ended June 2009, consists of a R754.9 million loss on the restatement of the fair value of the hedging instruments; the coupon accrual on the notes of R251.5 million; the coupon accrual on the shareholders loans of R231.9 million; and, finance costs of R12.8 million relating to the interest flows on debt in the Head Office, Botswana and Frontier companies.

All interest relating to the shareholders loans has been eliminated as non cash flow at the balance sheet date.

The effects of the volatility caused by the revaluations of our derivative instruments and Euro loan exposure are still expected to net out over the FEC/CCS period as the capital and coupon payments remain fully hedged.

### ***Taxation***

The taxation expenses for both reported periods are for certain of the subsidiaries, not affected by new debt raised for the buyout, e.g. Graceland, Botswana and Frontier, where taxation cash flows will continue to be incurred, and deferred taxation movements in the other companies.

## **Cash flows**

The cash flow information presented covers the cash flows for Peermont for the six months ended 30 June 2009 and the comparative period.

### ***Cash flows generated from operating activities***

Net cash inflow from operating activities for the six months was R468.4 million compared to R512.2 million in the comparative period in 2008. The cash conversion ratio to EBITDA, taking into account changes in working capital, taxation paid and maintenance capex was approximately 80.8%. This lower percentage is due mainly to the abnormal maintenance refurbishment capex of R36.0 million incurred in the period.

### ***Finance expenses***

The majority of the finance cost cash flows were in respect of the April coupon payment on the Senior Secured Notes of R333.3 million.

### ***Cash flows from investing activities***

Capital expenditure for the six months was a net R131.3 million, predominantly on payments of R38.9 million for the acquisition of the head office building; R18.7 million on the recently completed new hotels at Emperors Palace and Rio; R19.4 million on the upgrade of the Emperors Palace Emporium; R10.7 million on the refurbishment of the Mmabatho Palms property; R5.9 million on the refurbishment of the Metcourt Laurel hotel at Emperors Palace; R3.4 million on the acquisition of land in Francistown in Botswana and the balance on maintenance of existing buildings and replacement of gaming equipment.

### ***Cash flows from financing activities***

During the current period, net long-term debt of R5.7 million was raised by the Group. This included the net drawdown of a loan of R38.9 million that was raised for the purchase of the previously leased head office building; offset by expected debt repayments by the Botswana and Frontier operations and the repayment of R11.6 million of the PIK Notes Loan to fund the buyback of the PIK Notes.

### ***Dividends paid***

Dividends in both periods relate to the minority portion of the Botswana Company dividends paid.

### ***Cash and cash equivalents***

At 30 June 2009 the group had R418.1 million in cash resources available to service debt, working capital requirements and new projects. This included approximately R40.0 million required for floats and approximately R41.2 million held on behalf of the beneficiaries of the group's consolidated trusts.

### **Capital expenditures**

Our net capital expenditures in the six months ended 30 June 2009 and 2008 were R131.3 million and R118.1 million, respectively.

### **Maintenance capital expenditure**

Our net maintenance capital expenditures in the six months ended 30 June 2009 and 2008 were R67.6 million and R43.8 million, representing approximately 5.4% and 3.5% of total revenue, respectively.

The largest components of the maintenance capex in the current six months were R19.4 million spent on the upgrade of the Emperors Palace Emporium; R10.7 million on the refurbishment of Mmabatho Palms; and R5.9 million spent on the refurbishment spent on the Metcourt Laurel hotel at Emperors Palace.

The balance of our maintenance capital expenditures reflected ordinary course maintenance and replacement of gaming equipment, primarily slot machines, hotel furniture, fittings and equipment.

**Expansion capital expenditure**

Our expansion capital expenditures in the six months ended 30 June 2009 totalled R63.7 million. The largest components of this were R38.9 million on the acquisition of the previously leased head office building; R12.8 million spent by Emperors Palace on the construction of the new Peermont Metcourt Hotel; R7.2 million spent by Rio on the construction of its new Peermont Metcourt Hotel and the revamp of its salon privé; R3.4 million spent by Botswana on the acquisition of land adjacent to the Metcourt Lodge in Francistown; and, R1.4 million incurred by Emperors Palace on minor gaming expansion activities.

Our expansion capital expenditures in the first half of 2008 were R74.3 million. This consisted of R46.8 million spent by Emperors Palace on the construction of the new Peermont Metcourt Hotel; payment by Botswana of R5.0 million for costs accrued in 2007 for the Sedibeng and Syringa casinos; R21.7 million incurred on the construction of the Peermont Metcourt Hotel at Rio in Klerksdorp; and R0.8 million on the relocation of the Tusk Umfolozi casino to Richards Bay.

**Available capital resources**

We have utilised R91.6 million of our Revolving Credit Facility for the issue of guarantees to the local gambling boards, suppliers and certain financial institutions. This leaves us with R308.4 million of the facility available for other group needs.

We have recently signed the agreements to extend our R400 million Revolving Credit Facility from April 2010 to April 2013. These agreements are subject to conditions precedent including changes to the indenture and security agreements. Our legal advisors are in the process of effecting the necessary changes with the trustee.

### **Contingent liabilities**

There has been some progress on the SARS claim for taxation on the PGERH foreign currency option gain recorded in prior years. The attempt to resolve the dispute through an alternative dispute resolution mechanism failed. PGERH is now considering the remaining legal options available to it, including taking the matter to court. Should PGERH not be successful in its appeal to the courts, the estimated exposure to the group is approximately R9.8 million plus interest, which has currently not been provided for.

### **PIK Notes Buyback**

During the period, PGH II completed a PIK Notes repurchase in terms of which the company purchased R22.8 million of PIK Notes from the holders at approximately 51% of the face value or R11.6 million. All purchased notes were cancelled.

The debt repurchase was financed from existing cash resources within Peermont, utilising a portion of one of our restricted payments baskets.

**At this point, I'm handing you back to Anthony to take us through the final section dealing with new developments**

Thank you Grant. I will now update you on recent developments.

### **Casinos of Mauritius**

We previously announced that Peermont had been named by the Mauritian State Investment Corporation as the preferred bidder for a 51% controlling shareholding in the Casinos of Mauritius and 100% of the shares in the management company responsible for Casinos of Mauritius. The Casinos of Mauritius comprise 5 casinos with a combined offering of 543 slot machines and 85 gaming tables.

Should the deal be successfully concluded, and subject to the ruling exchange rates at the time and based on the audited 2008 performance, we expect revenues and EBITDA to be less than 10% of the Peermont 2008 reported comparable figures.

In terms of the proposed deal, Peermont together with our 60% owned subsidiary, PGB will conclude agreements with the SIC and other remaining minorities for a 51% controlling shareholding in the companies which operate the 5 casinos. Peermont is expected to enter into new management agreements with the casino operating companies through a new 100% held management company.

We are currently negotiating the detailed terms and conditions and expect to conclude these negotiations imminently.

### **Other new developments**

Our Metcourt hotels at Emperors Palace and Rio opened on the 1<sup>st</sup> March 2009, with the hotel at Emperors Palace, in particular, being very well received. Although new hotels usually take some time to establish a presence, the Metcourt at Emperors Palace opened with a bang and achieved occupancies at over the 60% mark within 2 months of opening, and further creeping up to over 70% as from May onwards.

The smaller Rio hotel got off to a slow start with occupancy building up from 20% in its first month to around 30% currently, but gradually establishing a presence in the market place.

Our redevelopment of the Emperors Palace Emporium is now in full swing. Certain of the new restaurants have already opened and we expect to open the rest of the new facilities during October and November, with the main attraction, namely the cinema complex, scheduled for completion in December 2009. The closure of several food, beverage and family entertainment outlets and the disruption caused by building works while under redevelopment has impacted visitor numbers and is likely to continue to do so until the redevelopment process is complete.

Although we successfully completed the conversion of all our casino slots floors at Emperors Palace to a coinless, smart card-based mode of operation and eliminated the option of coin-based play, our upgraded Aristocrat System 7000 casino management system did not operate as intended. As mentioned in our March presentation, a series of software upgrades are currently being installed by the developer. The issues with the gaming management system have been stabilised and no longer have an impact on our guest experience.

As regards the relocation of our Umfolozi property to the Richards Bay waterfront, a decision was taken during the quarter not to relocate due to, inter alia, the existence of a land claim over the land where the property was to be situated. In order to expedite the issue of the permanent casino licence, it was decided to complete the remaining required facilities at our existing Empangeni site. In order to comply with the prior commitments to the KZNGB, it was decided to build a 44 key Peermont Metcourt hotel, a dedicated Salon Privé, a 200 seater cinema style convention centre and upgrade the existing restaurant, kitchen and casino interiors.

These changes are subject to final approval by the KZNGB. Construction is expected to begin in the fourth quarter of 2009, with the resort planned to open in the fourth quarter of 2010 or early 2011 at a total cost of some R95 million.

Our Mmabatho refurbishment is also progressing well but has caused significant disruption to the property as all front of house casino, F&B and hotel areas were affected. The improvements to the public areas and casino are complete, and the rooms refurbishment commenced in May 2009, and we expect the project to be completed in September 2009.

As regards the third casino licence in Limpopo province, the Limpopo Gambling Board recently released its Request for Proposal (“RFP”) for the Burgersfort region for the second time, with a closing date of 30 September 2009. We have evaluated the RFP and upon updating our market assessment we have decided not to participate in the process.

Finally, our Salon privé extension in Rio was completed earlier this month and was very well received by the local market. This was followed by a concerted campaign by SARS focusing on the illegal casinos in Rio’s catchment area, which has temporarily at least, resulted in the closure of many of these illegal casinos. The combined effect of this extended Privé and closure of the illegal casinos is currently having a positive impact on Rio’s performance.

I would like to end off by recapping the main points of our performance for the quarter as follows:

1. Total revenues decreased by 4.7% to R611.6 million for the quarter from R641.8 million in the same quarter of 2008;
2. EBITDA decreased by 14.2% to R224.8 million, from R262.1 million in 2008. This results in a LTM EBITDA of R985.8 million; and
3. Although our EBITDA margin decreased to 36.8% from 40.8% in the same quarter of 2008, operating cost growth was limited to 4.6%.

That brings me to the end of our presentation and I will now open the line for questions.